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UNCLAS OTTAWA 000654

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SUBJECT: OTTAWA: CANADIAN RESPONSE TO US VIEWS ON DEBT
RELIEF FOR POOR COUNTRIES

REF: STATE 31823

1. (SBU) Reftel demarche was welcomed by GOC officials at Finance, Foreign Affairs and CIDA (the Canadian International Development Agency). On March 1, our Finance counterpart, noting that "it's going to be an interesting year" in the G-7, confirmed that of the five debt relief proposals that have been put forward, Canada's views seem closest to the UKs, with the U.S. close in principle but differing on how to pay. There are extensive areas of agreement. The GOC considers U.S. views on the International Finance Facility to be "right on."

2. (SBU) U.S. and Canadian views on IMF gold sales are also similar. Canada has asked IMF staff to look at the impact of gold sales, and would consider that option if sales were possible without harming either the IMF or gold-producing countries. If gold sales turn out to be impractical (which Finance thinks is likely), the GOC hopes to persuade others to help pay off debts to the IMF.

But how to pay?

3. (SBU) Canada does hold to its preference for 100% relief from debt servicing (as Finance Minister Goodale proposed at last month's G-7 meeting in London) rather than the U.S. proposal in reftel. The GOC, given recent fiscal constraints on G-8 and other donor countries, does not think that future large replenishments can be assumed. They stress that both the UK and Canada plans, like the US', call for continuation of sound HIPC policy requirements. Canada's proposal does include some non-HIPC countries (IDA-only countries with a World Bank Poverty Reduction Support Credit Program), but they, too, would have to show an ability to make effective use of development funds.

4. (SBU) Canada believes that while the U.S. plan to reduce gross flows while maintaining net flows is good in theory, it would not work in practice. In addition to questions about future replenishment, they cite concerns about equity towards non-HIPC low-income countries. They question whether, over time, a smaller amount of IDA will adversely affect non-HIPC countries as well. The GOC believes that, over 10 years, their proposal would lead to reduction in both stock and flow of debt owed by low income countries.

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